



## BUYING AT THE TAX LIEN SALE



If your investment strategy is to buy real estate tax liens for high-interest yields, you will have to attend the tax lien sale. Most taxing authorities conduct their tax lien sales in the form of an auction.

### PREPARING FOR THE TAX LIEN AUCTION

- There are two things you need to do to prepare for the tax lien auction.

#### 1. Register as a Bidder

- Registrations can be done before the tax lien sale or on the day of the auction. If registration information is not published with the tax sale property information, contact the taxing authority as soon as you know the date of the sale and ask when you can register.
- Some taxing authorities may ask you to post a deposit when you register. The amount of the deposit depends on the area. Some areas will ask for a deposit in the form of a cashier's check of up to 25% of your proposed bid. Call ahead to clarify this information.

#### 2. Procure the Bidder Information Packet

- Each tax jurisdiction has a different procedure for registering to bid. They also have their set way of conducting the bidding process itself. After you register you will be given an information packet detailing these procedures. Ask for the information packet if one is not automatically given to you.
- Do not assume that because you have bid at a previous tax lien sale in a tax jurisdiction everything is still the same. There may be new procedural information that will be necessary for you to know in order to make a successful bid.



## **SEVEN PIECES OF INFORMATION**

The bidder information packet will contain seven pieces of critical information.

### **1. How Many Tax Liens Can You Buy?**

- Some taxing authorities put a limit on the number of tax liens an individual investor can buy. Most taxing authorities place no limit on the number of tax liens you can buy. The limitation will be more a function of how much money you have to make investments.

### **2. How Do You Pay for the Tax Liens?**

- The key to the taxing authority mandates when of payments for the tax liens need to be made. They also mandate what form of payment they will accept. Whatever the form of the payment, you pay the purchase price to the taxing authority.
- You have no direct contact with the property owner at the tax lien sale. As a rule of thumb, most taxing authorities require that you pay immediately for the tax liens you buy. They want you to pay for the tax liens with cash, cashier's check, or money order.

### **3. How Are You Paid Interest?**

- You will be paid the amount you invest in the tax Lien plus the interest of the taxing authority. This assumes the property owner redeems the tax Lien. Some taxing authorities have notice requirements.
- This means they have to tell you within a certain time frame if the property owner has redeemed at the tax lien. Once the property owner redeems the tax lien, the taxing authority processes the property owner's payment. Then they send the money to you.

### **4. When Will You Be Paid?**

- You are paid only if the property owner redeems the tax lien. The taxing authority does not make interest payments to you. You will receive a one-time payment of principal and interest.

### **5. What Paperwork Will You Receive?**

- You will receive some type of paperwork from the taxing authority. The states and territories refer to this paperwork by different names. These names include tax lien, tax certificate, tax lien certificate, certificate of purchase, certificate of sale, tax claims, certificate of delinquency, receipt showing the amount paid, receipt for the purchase money, tax sale receipt, and tax sale certificate.
- Keep this paperwork in a safe place. This paperwork is the evidence that you bought and paid for the tax lien. You will need to present this paperwork to the taxing authority in



order to receive your money. Finally, this paperwork can be assigned to another investor for a fee.

## **6. What Do You Need to Record?**

- ➔ Each state specifies what you need to do to protect your tax lien investment. In some areas you will have to record specific documents with the recorder's office that become part of the public record.
- ➔ You also may need to notify the property owner within a certain period of time after you have purchased the tax lien on their property.

## **7. Do You Have to Be Present to Bid?**

- ➔ In the vast majority of areas, the taxing authority requires you to be present at the auction to bid. Some states even require you to be a resident of the state to bid in the auction. There are a few areas that will accept bids by mail.
- ➔ It is recommended to attend an auction before you actually make a bid. Most tax liens are only held once a year which may prove to be inconvenient. As an alternative, attend a foreclosure sale which are typically held on a monthly basis.

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## **AT THE TAX LIEN AUCTION**

Tax Lien auctions are held in a public place. Any times tax lien auctions such as foreclosure sales are held on the steps of the county courthouse. The first to do is check in with the official conducting the tax lien auction. You will register with them and you may receive a bidder card. You will use the bidder card to signal your bid.

Here is an overview of what will happen at a tax lien auction.

- ∞ Register and receive a bidder card.
- ∞ The auctioneer will begin the auction following a preset order of properties.
- ∞ Bid cards are used by bidders to make bids.
- ∞ The auctioneer will accept the best bid based on the type of bidding used.



- ∞ After bid is accepted, bidder will show bidder card to auctioneer.
- ∞ A receipt will be signed for the transaction.
- ∞ Bid amount is paid to the treasurer.
- ∞ Paperwork evidencing tax lien purchase provided.

## Competition

- ➔ Remember that the real estate tax lien auction is a competition. There are other investors who are interested in the same properties in which you are interested. The larger the tax lien jurisdiction, the more investors will attend the auction. If attending an auction in a very large jurisdiction, expect it to be crowded.
- ➔ Smaller areas may not have institutional investors present with deep pockets; therefore, smaller tax lien auctions may be more comfortable.
- ➔ Because most interest rates on tax liens are set by the state and not the county or municipality, the same yields competing with other bidders at the small auction than competing with 15 other bidders at a larger auction.
- ➔ Preparing for the competitive situation at the tax lien auction, you will be in more control once the bidding starts. Guard against getting carried away.
- ➔ If another bidder outbids your determined maximum bid, then stop bidding.

## Fairness of the Bidding Process

- ➔ Many taxing authorities enforce regulations designed to ensure that the bidding process is a fair process for all involved, including the property owner. These regulations can assess penalties on a bidder for bidding on a tax lien with no intention of buying it.
- ➔ A penalty can be assessed if a bid is accepted and the bidder does not pay for the tax lien within the appropriate time frame. This penalty is a percentage of the winning bid and can be up to 25% of that bid.
- ➔ Some areas have strict rules on collusion between bidders. This is particularly important to the property owner in property interest bid sales. These rules make it illegal for a group of bidders to decide ahead of time not to bid against each other on the tax liens.
- ➔ They divvy up who will bid on what tax lien so that each investor receives an undivided 100% interest in the property.